

Message Text

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ACTION EA-12

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TO SECSTATE WASHDC 3037
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C O N F I D E N T I A L CANBERRA 2986

E.O. 11652: XGDS-2, DECLAS 12/31/82
TAGS: ETRD, ETRN, AS, BEXP
SUBJ: AMERICAN MOTORS REQUEST FOR ASSISTANCE

1. SUMMARY: AMERICAN MOTORS HAS EMBARKED ON JEEP OPERATION IN AUSTRALIA WHICH HOLDS POTENTIAL FOR SUBSTANTIAL DIRECT AMERICAN EXPORTS. VENTURE IS THREATENED BY POSSIBLE EXTENSION OF AUTOMOBILE IMPORT QUOTAS TO COMMERCIAL VEHICLES AND FOUR-WHEEL DRIVE VEHICLES. ALTHOUGH CONTINUATION OF STATUS QUO APPEARS TO BE IN BROADER U.S. INTEREST, HOLDEN AUSTRALIA AND FORD AUSTRALIA, WITH LIMITED SUPPORTY FROM CHRYSLER AUSTRALIA, SUPPORT QUOTA EXTENSION. EMBASSY REQUESTS DEPARTMENTAL GUIDANCE AS TO WHETHER AMERICAN MOTORS REQUEST FOR EMBASSY ASSISTANCE CAN APPROPRIATELY BE RESPONDED TO. END SUMMARY.

2. DENNIS ADAMS, DYNAMIC GENERAL MANAGER FOR FAR EAST OPERATIONS FOR AMERICAN MOTORS, HAS APPROACHED EMBASSY FOR ASSISTANCE IN PRESENTING CASE TO AUSTRALIAN GOVERNMENT AGAINST EXTENSION OF AUTOMOBILE IMPORT QUOTAS TO INCLUDE
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FOUR-WHEEL DRIVE VEHICLES. INDUSTRIES ASSISTANCE COMMISSION HAS BEEN DIRECTED TO EXAMINE CONSEQUENCES OF SUCH AN EXTENTION AND SUBMIT REPORT TO GOVERNMENT BY MAY 15.

3. AFTER EXTENSIVE MARKET RESEARCH, ADAMS HAS ESTABLISHED AN OPERATION IN BRISBANE WHICH WILL IMPORT U.S.-MANUFACTURED RENEGADE AND CHEROKEE FOUR-WHEEL DRIVE VEHICLES

INTO AUSTRALIA, CONVERT THEM TO RIGHT-HAND DRIVE, AND MARKET THEM NOT ONLY IN AUSTRALIA BUT IN RIGHT-HAND DRIVE COUNTRIES THROUGHOUT ASIA. ECONOMICS OF SHIPPING COSTS AND CONVERSION MAKE SUCCESS OF ENTIRE OPERATION DEPENDENT ON USING AUSTRALIA AS A BASE.

4. AUSTRALIAN MARKET FOR FOUR-WHEEL DRIVE VEHICLES IS AMONG LARGEST IN WORLD, AND IT IS NOW SUPPLIED EXCLUSIVELY BY BRITISH AND JAPANESE. SOUTHEAST ASIAN AND PACIFIC MARKET IS SUBSTANTIAL AND GROWING (EST. 26,000 SALES IN AUSTRALIA IN 1978 AND 12,000 IN SE ASIA). AMERICAN MOTORS IS BY FAR THE LARGEST PRODUCER OF FOUR-WHEEL DRIVE VEHICLES IN U.S. (93,000 VS. 78,000 FOR GM IN 1977) AND SELLS 150,000 ANNUALLY WORLDWIDE. ADAMS EXPECTS SALES FROM HIS BRISBANE OPERATION TO INCREASE RAPIDLY AND BY 1981 TO TOTAL BETWEEN DOLS 27 MILLION (LOW ESTIMATE) AND \$37 MILLION (HIGH ESTIMATE).

5. ADAMS ARGUES, WITH PERSUASIVE DOCUMENTATION, THAT THIS REPRESENTS SALES WHICH WOULD OTHERWISE BE TAKEN BY JAPANESE AND BRITISH.

6. AUSTRALIAN AUTOMOBILE INDUSTRY IS IN A SLUMP. PROTECTION GRANTED AGAINST IMPORTS NOW INCLUDES, IN ADDITIONA TO 45 PERCENT DUTY, A QUOTA LIMITING IMPORTS TO 20 PERCENT OF MARKET. THERE IS REASON TO SUPPOSE THAT SALES SLUMP
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MAY IN PART BE ATTRIBUTABLE TO BUYER RESISTANCE TO HIGH PRICES RESULTING FROM THIS PROTECTION, IN ADDITION TO ECONOMIC SLOW-DOWN AND IMPORTS.

7. ISSUE BEFORE INDUSTRIES ASSISTANCE COMMISSION IS WHETHER PURCHASES OF COMMERCIAL AND FOUR-WHEEL DRIVE VEHICLES SUBSTITUTE FOR PURCHASES OF PASSENGER CARS. THESE NON-PASSENGER VEHICLES ARE NOT SUBJECT TO QUOTA AND ARE IMPORTED AT LOWER 25 PERCENT RATE OF DUTY. PREDICTABLY, MANUFACTURERS WHO DO NOT IMPORT FOUR-WHEEL DRIVE VEHICLES ARGUE THAT THERE IS SUBSTITUTION (GM-HOLDEN, FORD, CHRYSLER), WHILE MANUFACTURERS WHO IMPORT FOUR-WHEEL DRIVE VEHICLES ARGUE THERE IS MINIMAL SUBSTITUTION (TOYOTA, DATSUN). ADAMS HAS DONE IMPRESSIVE AMOUNT OF MARKET RESEARCH WHICH APPEARS TO DEMONSTRATE CONVINCINGLY THAT POTENTIAL PASSENGER CAR SUBSTITUTION IS ONLY APPROXIMATELY 4,460 VEHICLES, LESS THAN ONE PERCENT OF TOTAL MOTOR VEHICLE INDUSTRY SALES, WHILE PROBABLE SUBSTITUTION IS MORE LIKELY TO BE IN EVEN LOWER 1680-3360 VEHICLE RANGE.

8. REASON FOR LIMITED SUBSTITUTION POTENTIAL IS THAT 15 PERCENT OF SALES OF CONVENTIONAL FOUR-WHEEL DRIVE VEHICLES

ARE TO GOVERNMENT, AND 60 PERCENT OF REMAINDER ARE USED AS WORK VEHICLES RATHER THAN RECREATION VEHICLES. AMERICAN MOTORS SURVEY OF RECREATION VEHICLE OWNERS SHOWED, FURTHERMORE, THAT A HIGH PERCENTAGE WOULD HAVE PURCHASED NO OTHER VEHICLE IF MAKE THEY PURCHASED HAD NOT BEEN AVAILABLE; IN OTHER WORDS, DISCRETIONARY FUNDS FOR RECREATION WOULD INSTEAD HAVE BEEN USED FOR BOAT, CAMPER, OR OTHER NON-UTILITARIAN USE.

9. COMPARATIVE FIGURES ON GROWTH OF VEHICLE MARKET APPEAR TO FURTHER SUBSTANTIATE ADAMS CONTENTION THAT LOWER DUTY AND ABSENCE OF QUOTA HAS NOT DISTORTED GROWTH PATTERN OF AUSTRALIAN AUTOMOBILE MARKET. DURING 1971-77 PERIOD AUSTRALIAN PASSENGER MOTOR VEHICLE MARKET GREW AT 0.37 PERCENT ANNUALLY.

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PERCENT PER ANNUM, COMPARABLE TO U.S. RATE OF 0.5 PERCENT. REFLECTING CHANGE IN LIFESTYLES, MARKET FOR FOUR-WHEEL DRIVE VEHICLES GREW IN BOTH COUNTRIES AT IDENTICAL 20 PERCENT GROWTH RATE.

10. EMBASSY CONCLUDES FROM FOREGOING THAT DIRECT SALES BENEFIT TO AUSTRALIAN SUBSIDIARIES OF AMERICAN AUTOMOBILE MANUFACTURERS WOULD BE MINIMAL FROM IMPOSITION OF QUOTAS ON FOUR-WHEEL DRIVE VEHICLES; U.S. GAIN THROUGH THEIR REPATRIATION OF RESULTANT PROFITS WOULD BE EVEN LESS. BY CONTRAST, U.S. GAIN THROUGH DIRECT EXPORT SALES BY AMERICAN MOTORS WILL BE CONSIDERABLE IF ITS PROGRAM PROCEEDS (BECAUSE AMERICAN MOTORS HAS NO HISTORICAL BASIS FOR SUBSTANTIAL QUOTA, IT WOULD LIKELY BE ELIMINATED COMPLETELY BY QUOTA IMPOSITION). EMBASSY ALSO BELIEVES THAT BROADER U.S. INTEREST IN TRADE LIBERALIZATION IS LIKELY TO BE BETTER SERVED BY DISCOURAGING IMPOSITION OF QUOTAS BY AUSTRALIA WHENEVER POSSIBLE.

11. NEVERTHELESS, IN VIEW OF PERCEIVED CONFLICT OF INTEREST BETWEEN COMPETING AMERICAN FIRMS, EMBASSY REQUESTS DEPARTMENTAL GUIDANCE AS TO WHETHER IT WOULD BE APPROPRIATE TO MAKE REPRESENTATIONS ON BEHALF OF AMERICAN MOTORS TO AUSTRALIAN GOVERNMENT.

12. CONFIDENTIAL CLASSIFICATION OF THIS MESSAGE IS TO PREVENT DISCLOSURE OF PROPRIETARY AMERICAN MOTORS MARKET PROJECTIONS AND MARKET SURVEY RESULTS UNDER FREEDOM OF INFORMATION ACT.

ALSTON

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Message Attributes

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